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SUBJECT: BUSINESS ASSOCIATION PRESSES FOR URGENT REFORM

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¶1. (SBU) Summary: In recent weeks, Morocco's chief business lobbying group, the Confederation Generale des Entreprises du Maroc (CGEM), has added its voice to those calling on the government to adopt urgent reforms in areas ranging from taxation to the judiciary to enable Moroccan companies to compete internationally. The group identifies five critical priorities: vocational training, support for small and medium-sized enterprises, judicial reform, tax reform, and modification of the Moroccan labor code. If previous such exercises have usually not resulted in tangible improvements, representatives of the Casablanca-based organization tell us that they hope that this time will be different, with government agreement to meet regularly and set up commissions to examine the recommendations. End Summary.

¶2. (SBU) A Comprehensive Roadmap: The fifty page CGEM white paper, based in part on a 2007 Monitor Group study that benchmarked Morocco's corporate tax regime against that of its competitors, was originally destined for release in the pre-election period last year. In its consultations with political parties, however, the group was "agreeably surprised" to find that parties had already elaborated a number of economic priorities. This led CGEM to hold back the document for further review, and to ultimately present it to the government at the end of January. In recent interviews, CGEM President Moulay Hafid Elalamy has characterized the white paper as an effort to ensure that the voice of the confederation was heard as the new Moroccan government works through its economic priorities.

¶3. (SBU) The five chapters of the report highlight what Morocco's most influential business association believes to be the key constraints that inhibit business that can be addressed in the short term. Elalamy himself as characterized them as "a realistic vision rather than a set of pious wishes that are totally disconnected from reality." The group's "realist" slant is most evident in its approach in the field of education. The group decided not to tackle the sector's overall problems head on, Elalamy's deputy Mohammed El Idrissi recently told us, because that was a sure recipe for ensuring that the report was "filed away and forgotten." It chose instead to focus on achievable changes in Morocco's vocational training regime, suggesting a new centralized entity to oversee special training contracts and to replace the multiple agencies that currently participate in the process. Overall education reform is needed, El Idrissi admitted, but in the short term the needs of business can be addressed by this "remedial" approach.

¶4. (SBU) In other areas, however, the group saw no option but

to confront difficult and long-standing problems head-on. Perhaps the most ambitious of its targets is the Moroccan justice system. In an indictment that one leading business paper characterized as the "consummation of the divorce" between the business world and the judicial system, the paper puts forward a broad indictment of Morocco's judiciary. It includes corruption, lack of training, lack of specialization, failure to utilize alternative means of dispute resolution, and failure to disseminate jurisprudence generally, with the result that judicial decisions display little consistency between regions. To begin the process of reform CGEM suggests increasing the budget of the Justice Ministry to increase judicial salaries, and also setting quotas for judicial training to ensure that judges have the background that will enable them to adjudicate complicated commercial disputes.

15. (U) The group's other recommendations fall into three broad categories: improving the access of small and medium-sized enterprises to finance, reforming Morocco's 2004 labor code, and reforming the country's onerous fiscal regime. A short synthesis of key elements in these areas follows:

16. (U) Fiscal regime: the group praises the government's initiative to lower taxation from 35 to 30 percent in the 2008 budget, but drawing on the Monitor Group study argues that this level remains too high in comparison to Morocco's peers. The group also argues that lowering the rate alone is insufficient-- procedures must be simplified as well, given that an average business devotes 468 hours to fulfilling its tax obligations, nearly twice the average in the MENA region. Specific proposals thus include reduction of this bureaucratic load and continued reduction in rates towards the average of Morocco's peer group, including particularly through setting a lower rate of 20 percent for small and medium-sized enterprises. Such a tiered approach, CGEM argues, would go far towards reducing the size of Morocco's informal or parallel economy. Longer term, the group also urges reform of the value added tax and income tax, to increase the public's purchasing power.

17. (U) Labor Code: The white paper highlights long-standing business complaints about shortcomings in the revised 2004 labor code, arguing that its "interventionist spirit" limits managers' authority and marginalizes labor contracts. Certain provisions are impossible to implement, others are contradictory and open to judicial interpretation, while many seriously handicap business competitiveness (such as the requirement that retiring workers be replaced, an edict that CGEM notes essentially rules out business restructuring). CGEM also criticizes the government's continued failure to adopt legislation governing workers' right to strike (a right enshrined in the constitutions since 1962), arguing that the anarchic manner in which strikes proceed currently is a serious threat to business.

18. (U) SME Finance: As in the area of vocational training, CGEM argues that the multiplicity of government initiatives seeking to aid small and medium-sized enterprises have lacked coherence and done little to assist them. Instead the sector has stagnated at between 35 and 39 percent of industrial production and 10 percent of value added over the last twenty years, even with the government's three global initiatives, six sectoral initiatives, and four thematic initiatives. What is needed, CGEM argues, is not to adopt new measures, but to optimize and better coordinate those which already exist. Companies need to be screened in order to focus on those that have the best chance of success, a promised fund for the support of small enterprise should be implemented, and most importantly, in CGEM's view, the fiscal system needs to be modified to ease the burden on smaller firms.

19. (SBU) Process: CGEM presented these detailed proposals to Prime Minister El Fassi at the end of January, and he directed the government to set up commissions to meet monthly on the issues the group raised. Those sessions feed into a quarterly session with the Prime Minister himself. CGEM

President El Alamy put a positive spin on the process in a March interview, arguing that "our objectives have been attained in the sense that our voice has been heard by the authorities." Earlier, the group's Secretary General, Mohammed El Idrissi, also accentuated the positive in a conversation with us, noting that many ministers come from a business background, and understand the urgency of the issues. "The diagnosis is not new," he said, what CGEM has attempted to contribute are "concrete" solutions that can be achieved in the short term.

18. (SBU) Comment: While in many areas it echoes the views of other observers, including those of the World Bank, the CGEM White Paper is an impressive summary of what Morocco's business elite believes needs to be done on an urgent basis to enable the private sector to fulfill its role as the "motor" of Moroccan economic growth. Not all proposals will be palatable to all audiences, particularly on taxation and labor regulation, but the government's willingness to engage with the organization highlights the seriousness of the proposal and its success in avoiding "pie in the sky" formulations. The real tests will come in the months ahead, as the two sides engage on detailed labor, judicial, and tax proposals that in many instances go beyond what the government has up to now been willing to accept. End Comment.

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